



***Auditing: A Key to Better Government***

A Report by the

**Auditor General  
of California**

July 1990

A-001

**Auditing:  
A Key to Better Government**

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**July 1990, A-001**

**Office of the Auditor General  
California**

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**Kurt R. Sjoberg, Acting Auditor General**

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July 30, 1990

A-001

Honorable Elihu M. Harris, Chairman  
Members, Joint Legislative Audit Committee  
State Capitol, Room 2148  
Sacramento, California 95814

Dear Mr. Chairman and Members:

This report, entitled "Auditing: A Key to Better Government," highlights certain audits completed by the Office of the Auditor General from January 1, 1989, to June 30, 1990. The auditor general's primary responsibility is to respond to legislative requests for audits of state government and to make recommendations for improvement. The office issued 60 audit reports during this period to fulfill this responsibility.

The Legislature recognizes that governmental audits are an important cornerstone in the system of accountability expected by the people of California. One of the most important aspects of public accountability is whether the use of state funds and resources complies with the Legislature's statutory mandates. The auditor general's role is to **detect** instances of noncompliance, **disclose** them to the political leaders and the public, and **deter** them from recurring.

Moreover, unlike the private sector where inefficient and ineffective ventures will fail under the weight of a competitive economy, government agencies need to be reviewed and monitored to ensure efficient and effective operations. As Peter F. Drucker states in Management: Tasks, Responsibilities, Practices, traditional government institutions require an organized, independent audit of their "promises." The Legislature identified this need in 1969 when it expanded

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the role of the Office of the Auditor General. Since then, the auditor general has performed audits of government agencies' promises, measuring the efficiency, effectiveness, and economy of the agencies' operations. These audits have saved the taxpayers millions of dollars and improved the delivery of state services. The variety of auditing approaches used by the auditor general--financial, performance, investigative, and compliance--adds to these checks, balances, and controls of state government.

In this report, we have arranged those audits we highlight into six areas of government, ranging from education to financial administration. In addition, since we are often asked "Who audits the auditors?" We have attached in Appendix A the two most recent opinions by outside auditors on our financial statements and our professional peer review. In both, we received unqualified opinions--the highest possible--attesting that our financial operations meet all accounting standards and that our audit work fully meets the independence and technical requirements of government auditing standards. Appendix B lists, by area of government, the audit reports issued from January 1, 1989, to June 30, 1990.

Complete copies of our reports are available upon request, and our staff will be happy to brief members on the audits.

Respectfully submitted,

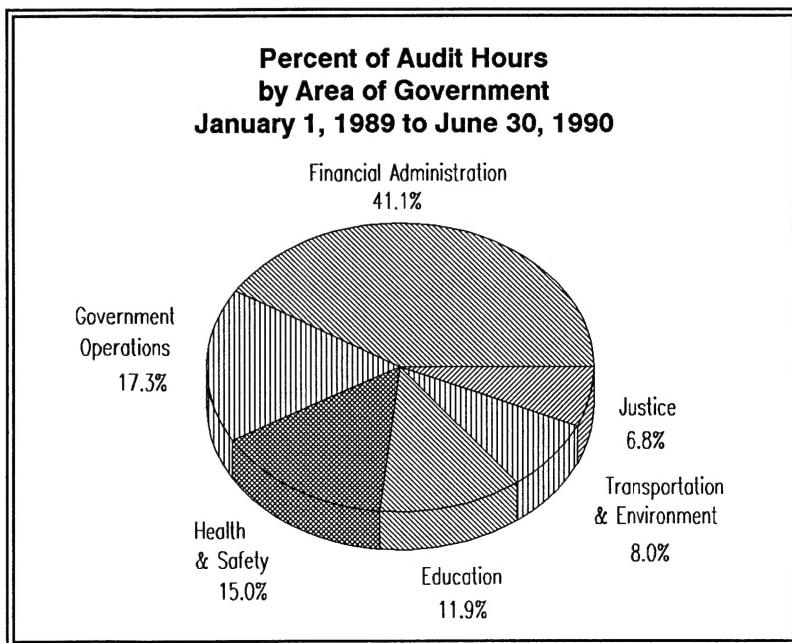


KURT R. SJOBERG  
Acting Auditor General

## Introduction

Since January 1989, the Office of the Auditor General has issued 60 audit reports addressing the operations of state agencies, school districts, transit districts, and local government. Implementing many of the recommendations in these reports could save the State's taxpayers more than \$75 million. Also, literally hundreds of other recommendations in these reports, while not quantifiable as dollar savings, will, nonetheless, produce significant benefits to the agencies we have audited and the citizens of the State. These benefits include the improved delivery of state and local services, increased accountability over government assets, and better enforcement of laws and regulations.

In this report, we highlight a selection of our audits issued since January 1989. We have grouped the audits into six areas of government: Education; Health and Safety; Environment and Transportation; Justice; Government Operations; and Financial Administration. The following chart shows the Office of the Auditor General's work load for each of these six areas of government.



## Education

California's future as a technological leader depends upon a well-educated population. The State and local school districts play a pivotal role in educating the majority of our citizens from kindergarten through college. In the past 18 months, we have performed nine audits related to education at both state and local levels. These audits address such diverse areas as a near-bankrupt school district, the problem of diploma mills, textbook purchasing inadequacies, and fraud in the community colleges. Three of these reports are highlighted below.

### **Poor Management at the Oakland Unified School District**

During the 1988-89 school year, the Oakland Unified School District was the sixth largest in California with an average daily attendance of approximately 53,000 pupils, a work force of approximately 6,900 employees, and a general fund operating budget of approximately \$206 million. From August 1989 through January 1990, we issued three reports on the district.

*The district was continuing to have financial difficulties*

In the first report (F-931), we analyzed the district's general fund balances for fiscal years 1987-88 and 1988-89 and its budget projections for 1989-90. Our review revealed that the district was continuing to have financial difficulties. The district's actual general fund balances at June 30, 1986, 1987, and 1988 were approximately \$4.9 million, \$4.4 million, and \$452,000, respectively. The report also compared the cost of two financing options then under consideration by the district to alleviate its financial difficulties--issuing certificates of participation or requesting a state loan.

*Weaknesses in management resulted in significant problems*

In our second report (F-931.1), we cited weaknesses in the district's management controls over payroll, personnel management, equipment and materials, contracts and payments for services, disposal of real property, student attendance reporting, and possible conflicts of interest. These weaknesses in management resulted in significant problems, including the payment to employees of over \$62,000 more than they were entitled to receive, the theft of approximately \$30,000 in equipment and materials from the district, and the payment of over \$160,000 more than necessary for consulting services.

***The district will have to reduce its expenditures over the next ten years to avoid general fund deficits***

In our third report (F-931.2), we showed that the district will have to reduce its expenditures over the next ten years to avoid general fund deficits, establish and maintain a reserve for economic uncertainty, and have sufficient cash to meet its obligations. In this report, we also addressed the possible unconstitutionality of the district's certificates of participation and showed that the district failed to apply for more than \$60 million that the district should have been eligible to receive. In our last two reports, we made 35 recommendations to the district and one recommendation to the Legislature that were designed to improve the district's management and fiscal condition.

***A trustee appointed to advise and assist the district***

On September 15, 1989, after we issued our first report, the district issued \$13.5 million worth of certificates of participation. On October 2, 1989, the State enacted Assembly Bill 2525 (Harris). This law required the superintendent of public instruction to appoint a trustee to advise and assist the district in preparing its budget, in developing plans to improve the educational achievement of all district students, and in resolving the financial and management problems of the district. The superintendent of public instruction appointed such a trustee effective November 27, 1989.

***Some new policies to strengthen management controls, and some employees arrested***

In response to our second report, the district agreed to improve its controls over payroll, personnel management, equipment, procurement, student attendance reporting, and possible conflicts of interest. In some cases, the district has already established new policies to strengthen management controls. In addition, three district employees were arrested and indicted as a result of our work.

***The district has agreed to strengthen fiscal controls and has initiated legislation to recover and increase funding***

In response to our third report, the district agreed to exercise stronger fiscal controls and improve its financial planning. Further, at the district's request, members of the Legislature have sponsored a bill that would allow the district to recover approximately \$5.6 million for its voluntary integration program for fiscal year 1989-90 and receive additional millions of dollars over future years. Without this legislation, the district will probably forfeit at least \$4.8 million annually over the life of its voluntary integration program. The district also agreed to explore ways of improving its identification of and application for other sources of funds.

## **Circumvention of State Fiscal Controls at the Chancellor's Office**

The Chancellor's Office is the administrative arm of the Board of Governors of the California Community Colleges, serving primarily as a planning, reporting, advising, and regulating agency for the 70 community college districts. The Legislature appropriates funds to the Board of Governors for the support of the office and for local assistance activities such as educational programs at community college districts. In the 1987-88 budget, the Legislature appropriated more than \$1.37 billion in support and local assistance funds for the community college system, \$85.9 million of which was earmarked for student services.

*The office bypassed the State's controls over receipts, expenditures, and hiring*

During our review (Report P-768), we found that the office used a variety of methods to bypass the State's controls over receipts, expenditures, and hiring. For instance, from fiscal year 1983-84 through fiscal year 1987-88, the office directed five community college districts, acting as fiscal agents on behalf of the office, to spend more than \$9.0 million in funds designated for three student services programs. Because the districts are not subject to the State's fiscal controls, these expenditures, which included payments for consulting services, travel expenses, and equipment, were made without adequate controls and sometimes for inappropriate purposes. For example, an employee of the office unilaterally instructed three of the districts to pay more than \$821,000 to a consulting firm that allegedly provided no services.

Other conditions also resulted from the office bypassing state controls. For example, the office improperly awarded at least 13 consultant contracts worth more than \$940,000 to the Community College Foundation without seeking competitive bids. In addition, the office directed its fiscal agents to use a portion of the \$7.3 million in local assistance funds appropriated to one of its programs to pay administrative expenses normally paid from a state department's support budget. Moreover, the office allowed certain employees to have unilateral discretion over allocations of certain program funds and failed to exert proper supervision.

*The office has taken numerous steps to improve fiscal controls*

In response to our report, the office has taken numerous steps to improve fiscal controls. The office has established procedures to prevent future frauds with funds intended for community college districts. For example, it is discontinuing the use of fiscal agents, and it changed the method of allocating funds to districts, changed the method for redistributing unspent funds, and strengthened administrative approvals and monitoring. These steps have also included introducing legislation (Assembly Bill 3929--Jones), which provides a 3 percent limit on the percentage of local assistance funds that can be set aside for special projects of a statewide or regional nature, and language in the 1990-91 Budget Act that requires the Department of Finance to review the budgets for local assistance that are not part of the regular district allocation procedure.

*Improved contracting procedures*

Moreover, to comply with state contracting regulations and, thus, ensure that it has obtained the most qualified consultants at the lowest possible cost, the office, among other corrective actions, has improved contracting procedures by discontinuing no-bid consulting services contracts with the Community College Foundation. Its legal office is also reviewing all consulting services contracts to ensure that they are either competitively bid or properly exempted from the bidding process.

### **Weaknesses in the Selection of School Textbooks**

The State Board of Education is responsible for adopting textbooks and other instructional materials that it determines are suitable for use in California's elementary schools. From the list of materials that the state board adopts, local school districts then select most of the textbooks and instructional materials that they purchase.

*Inequitable distribution of free instructional materials and lack of comprehensive conflict of interest policies*

During our review (Report P-935) of two recent state adoptions and the subsequent purchases of textbooks by four local school districts, we noted, among other weaknesses, that, contrary to state law, publishers were not equitably providing free instructional materials to the districts that purchased their textbooks. Moreover, the districts' policies for prohibiting incompatible relationships with publishers and for reporting such relationships are not nearly as comprehensive as the state board's policies.

***Publishers host numerous events***

Also, although not prohibited by law, publishers host numerous events attended by school textbook officials. We identified at least 300 such events where publishers gave away meals, small gifts, lodging, and transportation.

***Stronger contract language and tougher conflict of interest policies as a result of our recommendations***

The California Department of Education responded to our report saying that our comments and recommendations to address these weaknesses will enhance its efforts to enforce provisions of state law, strengthen its contracts with publishers, and improve reporting by school districts. For example, to strengthen the state board's contracts with publishers and provide an incentive for publishers to report all free items they give to districts, the department plans to add contract language that will explicitly describe all reporting requirements and provide penalty provisions for not complying with state law regarding free instructional materials and grants. It also plans to recover overcharges we identified from publishers.

Moreover, in response to our audit work, one of the districts we reviewed adopted a policy requiring all individuals involved in selecting instructional materials to file a statement disclosing any financial interests or relationships with publishers before participating in the selection process. This policy also prohibits selection committee members from accepting gratuities of any kind from publishers.

## Health and Safety

Californians are keenly interested in the State's delivery of health care and their safety at work and at home. Since January 1989, we have completed seven audits addressing a broad spectrum of health and safety issues. The subjects of these audits have ranged from the safety of hospitals and the adequacy of insurance for work-related injuries to the accuracy of lab testing and the monitoring of mental health contracts. Four of these reports are highlighted below.

### **Improvements Are Needed in the State's Program To Provide Assistance to Homeless Families**

The Department of Social Services is responsible for overseeing the county welfare departments' direct implementation of the homeless assistance program. The county departments administer funds to families to acquire both temporary and permanent housing. The homeless assistance program is 50 percent federally funded; approximately 45 percent state funded; and approximately 5 percent county funded. During the first two years of the program, which began in 1987, the department reported that it spent more than \$143 million to provide assistance to homeless families.

#### ***Insufficient measures taken to limit fraud and abuse by families in the program***

During our audit (Report P-872), we concluded that the department and the counties need to improve their administration of the program. Although the program meets a need to provide housing for homeless families, and since the inception of the program, counties have improved program controls, the department and the counties have not always taken sufficient measures to limit fraud and abuse by families in the program. Additionally, the state law establishing the program and the department's regulations limit the steps that the counties can take to prevent fraud and abuse and provide for limited accountability from families who receive assistance.

Among other conditions that resulted from these weaknesses, we noted that in at least 9 (11 percent) of the 83 cases that we reviewed at three counties, the families were not homeless or provided false or misleading information to receive homeless assistance funds. These 9 families received a total of \$7,810 in homeless assistance. In an additional 17 (20 percent) of the 83 cases, the families received \$16,720 in homeless assistance, but it is questionable whether the families

*A variety of corrective actions planned to reduce fraud and abuse in the program*

were really homeless. For 8 of the 17 cases, after receiving the homeless assistance funds, the families reported to the county the same address they had before they applied for homeless assistance. The payments in these 8 cases totaled \$7,470.

In response to our recommendation to reduce fraud and abuse in the homeless assistance program, the department has planned a variety of corrective actions. For instance, the department stated that it would renotify the counties of their responsibility to investigate all cases in which there is evidence that the family may be ineligible and all cases in which it appears that the family may be applying for assistance under fraudulent circumstances.

Additionally, the department stated that it would send counties further instructions regarding how to apply program regulations and additional information on recouping overpayments made to families. The department also reported that it would increase its monitoring efforts to ensure that counties identify families who may be ineligible for assistance. The department further reported that, to the extent that its resources will allow, it will increase its oversight of the counties' administration of the homeless assistance program.

*Amendments to regulations proposed to provide additional accountability in the program*

In addition, many of our recommendations to provide additional accountability in the homeless assistance program through regulatory and administrative changes are included in a package of amendments to regulations that the department has proposed. For example, the proposed amendments include many of our recommendations for increased evidence from families that homeless assistance funds were or would be used for shelter. One of the proposed changes states that if a family cannot provide verification that moneys previously received were used for shelter, all future homeless assistance payments to the family would be made directly to the provider of shelter.

Additionally, the proposed regulations include the recommendation that payments to families who repeat the program within two years would be made to the provider of shelter. The department also reported that it would implement our recommendation requiring families who do not provide a formal rental agreement to sign under penalty of perjury a form that states the liabilities for providing false information to receive assistance. The department reported that it expected to implement the new regulations in December 1990.

## **The Workers' Compensation System in California**

State legislation requires employers to provide compensation for an employee's work-related injury or illness and to rehabilitate and retrain injured employees. Employers can do this by purchasing workers' compensation insurance or by participating in the State's self-insurance program. The Department of Industrial Relations is responsible for administering and enforcing the workers' compensation laws. It also operates the Workers' Compensation Appeals Board, a state court that hears and decides litigated claims for workers' compensation benefits.

### ***System costs have steadily increased***

In April 1989, we issued a primarily informational report on the workers' compensation system in the State (Report P-830-R). The report indicates that the costs of the system have steadily increased from 1984 through 1986. Premium costs to employers for workers' compensation insurance increased from \$3.9 billion in 1984 to \$5.2 billion in 1986. Further, benefits paid and reserved for future payment increased from \$2.6 billion in 1984 to \$3.3 billion in 1986. In addition to these cost increases, the number of employees participating in vocational rehabilitation has increased substantially. However, the proportion of participants employed after completing their rehabilitation plans increased only slightly.

### ***Most claims resolved without litigation***

In our review of workers' compensation claims, we found that most are resolved without litigation. In our sample, those that were litigated took an average of 525 days to resolve. Furthermore, the time taken to litigate claims did not change significantly for claims filed from 1985 through 1987.

### ***Significant changes to the system as a result of our audit***

Finally, the report presented alternatives for the Legislature to consider in modifying the workers' compensation system. In September 1989, the Legislature enacted the Margolin-Bill Greene Workers' Compensation Reform Act, which consists of two measures: Chapter 892 and Chapter 893 of the Statutes of 1989. These measures address many of the alternatives that we suggested, including an increase in the maximum benefit amount that injured workers can receive; an enhancement of the State's role in overseeing the delivery of benefits; and the institution of employer assessments to provide additional funding for administration of the workers' compensation system.

## **Weaknesses in the Regulation of Clinical and Physicians' Laboratories**

State law and regulations require that the Laboratory Field Services, which is within the Division of Laboratories in the Department of Health Services, ensure that all licensed clinical laboratories are maintained and operated without injury to the public and that laboratories have the proper facilities, quality control procedures, and licensed personnel. The Laboratory Field Services determines compliance through on-site inspections and evaluation of mandated proficiency tests conducted by approved proficiency testing services.

*Only about 22 percent of proficiency test results for clinical laboratories were evaluated. Also, licensees were undercharged at least \$1.3 million.*

During our review of the Laboratory Field Services (Report P-821), we found that, among other weaknesses, the Laboratory Field Services evaluated proficiency test results for only about 22 percent of the laboratories that are required to participate in proficiency testing. Moreover, the department has not correctly calculated annual license fees for clinical laboratories and clinical laboratory personnel and, as a result, we estimate that the department undercharged these licensees at least \$1.3 million from calendar year 1985 through calendar year 1988.

*License fees not promptly deposited*

In addition, the department has not promptly endorsed and deposited checks, money orders, and warrants submitted as license fees by clinical laboratories and clinical laboratory personnel. According to an official, the Laboratory Field Services could not promptly endorse and deposit license renewal fees because state law requires that the renewal of the licenses occur within 60 days of the annual expiration on December 31. According to the official, processing all the license renewal applications in a 60-day period was more than the department's staff could handle promptly.

*The department is continuing its efforts to develop an automated data system and has revised license fees, and legislation has been introduced to allow a staggered renewal of licenses*

In response to our recommendation to improve its evaluation of laboratories' proficiency tests, the department is continuing its efforts to develop an automated data system. According to department officials, the new system has been developed and tested for the evaluation of routine chemistry tests. It continues to be developed for other tests, including the evaluation of proficiency tests. In response to our recommendation to improve its calculation, endorsement, and deposit of license fees, the department has revised license fees to comply with statutory provisions. Moreover, Assembly Bill 185 (Speier) would, among other things, allow the staggered renewal of license fees as recommended in our report.

## **Poor Monitoring of the Construction of Health Facilities To Ensure They Meet Seismic Safety Standards**

The Office of Statewide Health Planning and Development is responsible for ensuring that health facilities are constructed in accordance with state law. State law requires that health facilities be designed and constructed so that they are able to resist the forces of earthquakes, gravity, and winds. The office reviews construction plans for health facilities and monitors construction so that facilities are designed and constructed in accordance with this standard and other related building standards.

### ***Health facilities' construction plans not reviewed promptly and construction work not monitored***

During our review (Report P-876), we found that the office still had not met its goals for reviewing construction plans, and office staff did not always visit construction projects as often as recommended to observe construction and monitor resident inspectors. Moreover, office staff did not ensure that resident inspectors were qualified to inspect construction, and the office did not consistently use its authority to deter officials of health facilities from beginning construction without approval.

### ***Improvements in organizational structure***

In response to our report, the director of the office has implemented changes in the organizational structure of the Division of Facilities Development and Financing. Beginning in July 1990, the Architectural and Engineering Branch of the division will be responsible for reviewing plans for hospital facilities throughout the State. In addition, the Construction and Support Branch will have statewide responsibility for the inspection of hospital construction and the testing and certification of construction inspectors.

### ***Plans for new monitoring policies and procedures***

The department also plans to establish specific deadlines for completing reviews of construction plans. In addition, the department will establish policies and procedures requiring visits to projects by department staff and requirements for inspectors to keep accurate records of inspections. New policies and procedures will also require staff to ensure that officials of health facilities apply for approval of construction plans. Moreover, the department will convene an advisory group to study the process for approving inspectors and for periodically retesting inspectors' knowledge of state requirements. Finally, the department will organize a task force to study the department's policies and procedures for requesting and issuing orders to stop unauthorized or unsatisfactory work when it is found.

## Environment and Transportation

The overriding environmental concern of California's citizens is to maintain a quality of life free from the hazards of poor air and water. Since the quality of the State's air is inextricably tied to pollution caused by our primary mode of transportation--automobiles--we have grouped environment and transportation into one area of government.

A number of state agencies and boards involved in managing the environment and providing transportation options are included in the 11 audit reports we have completed on these subjects since January 1989. Among these 11 audits, we looked at the State's program for hazardous waste management, a transit agency's operational effectiveness, and the State's management of public bus transportation. Three of these reports are highlighted below.

### **California's Hazardous Waste Management Program Continues To Improve but Needs To More Fully Enforce State Laws and Regulations**

The purpose of California's hazardous waste management program is to protect public health and the environment from the harmful effects of hazardous waste. The Department of Health Services is responsible for administering the program by regulating the generation, transportation, storage, treatment, and disposal of waste classified as hazardous under various laws and regulations.

The department has improved its administration of the program since our last report issued in May 1986. Since then, it has developed policies and procedures for many aspects of its regulatory program. It now generally initiates enforcement action against facilities that violate hazardous waste laws and regulations, and it has developed a tracking system for its permitting, surveillance, and enforcement activities.

#### ***Many facilities without required permits***

Although the department has improved its administration of the program, our review of its performance in fiscal years 1986-87 and 1987-88 (Report P-831) showed that it still had some weaknesses. For example, the department has not required up to 1,700 hazardous waste facilities that are subject only to state laws to obtain permits or meet other requirements for managing hazardous waste. Moreover, the

department still does not detect and deter violations of requirements for the State's hazardous waste manifest system and does not always ensure that hazardous waste facilities meet the State's requirements for financial responsibility.

***Complaints not always responded to***

Further, the department did not always respond to complaints. For example, the department did not respond to a complaint alleging illegal disposal of an unknown bright orange liquid from a pipe into the ocean. When the department does not respond to complaints, it misses opportunities to identify possible mishandling of hazardous waste and to take appropriate enforcement action against the responsible parties. Finally, the department did not collect, in all cases, full payment for fines and costs from enforcement action.

***The department intends to implement several measures and has already implemented others***

In response to our recommendations to more fully enforce state laws and regulations, the department intends to implement several measures and has already implemented others. For example, to monitor the activities of state-only hazardous waste facilities that are subject only to state laws, the department plans to develop and implement enforcement protocols for many of these facilities by March 1991. By June 1990, it also plans to begin following up on reported violations of the State's hazardous waste manifest system.

The department has also notified its regional offices that they should adhere to the department's policy of promptly responding to complaints alleging mishandling of hazardous waste. Moreover, the department's financial responsibility tracking system has been modified to improve monitoring of facilities' compliance with financial responsibility requirements. Finally, the department has taken steps to collect all fines and penalties to which it was entitled from violators of hazardous waste laws.

## **Public Bus Operations in California**

Public transit systems provide transportation services to the public on a regular and continuing basis. Recognizing that an efficient and orderly movement of people within urban areas is necessary to the welfare and the vitality of the public, both the federal and state governments provide subsidies to transit operators in California. In fiscal year 1987-88, 109 transit operators provided bus service in the

State and served approximately 842 million passengers. These 842 million passengers represent 75.9 percent of the 1.11 billion passengers carried by public transit statewide in fiscal year 1987-88.

In September 1989, we issued a primarily informational report on trends in the fiscal operations and performance of public bus operators statewide (Report P-777.1). The report also discusses the maintenance trends, procurement practices, extent of privatization, and hiring and training practices of a selected number of public bus operators.

***Failure to competitively bid***

During our audit, we reviewed the competitive procurement practices of four transit operators and determined that three of the operators spent \$2,022,778 for the procurement of materials, supplies, and services without obtaining competitive bids or price quotes.

***Measures implemented to ensure competitive bidding***

In response to our recommendations for the three transit operators to improve their procurement practices, the transit operators have revised procedures manuals to specifically address their procurement of materials, supplies, and professional services and their contract administration. Also, the three transit operators have either hired additional procurement staff or required either their legal or internal audit departments to monitor procurement activities to ensure that competitive bidding occurs. In addition, one transit operator's internal audit department is conducting a comprehensive review of its procurement practices to ensure compliance with all applicable state and federal procurement requirements.

**The Regulation of Limousine Operators  
Can Be Improved**

The California Public Utilities Commission is responsible for regulating privately owned public utilities and transportation companies. The operators of limousine services must obtain permits from the commission before they can transport people in exchange for compensation in California.

***Not all limousine services operating with permits and adequate insurance coverage***

During our audit (Report P-826), we concluded that the commission could improve its regulation of limousine operators. Although state law requires limousine operators to obtain permits from the commission before conducting business, we found that the commission did not identify all operators who were not complying with this law. In addition, while the commission had taken enforcement actions against

many limousine operators who had violated state law, it did not ensure that operators stopped conducting business when they no longer had adequate insurance coverage. The chief of the commission's Compliance and Enforcement Branch has stated that the commission cannot always conduct follow-up activities because of very limited resources.

*Increased identification of those operators without permits*

In response to our recommendations to the commission to ensure that all limousine operators comply with state law, commission officials stated that the commission has identified all limousine operators who do not have valid permits yet advertise in the yellow pages of the telephone directories for San Francisco, Fremont-Hayward, Contra Costa County, Palmdale-Lancaster, and Ontario. The commission is conducting new investigations in San Diego, San Fernando Valley, and Santa Barbara. From January through December 1989, the commission has initiated enforcement actions against 84 unlicensed operators. Additionally, the commission will continue to identify unlicensed operators as new telephone directories are issued.

In our report, we also recommended that the commission determine whether it has sufficient staff to enforce state law. In its one-year response to our audit, the commission stated that, for its monitoring activities, it has added 3 more investigators, filling all of its 12 positions.

## Justice

The administration of justice in California has always been an area of concern for the State's citizens. State and local jurisdictions share the responsibility for maintaining and managing the justice system from enforcement through incarceration. Since January 1989, we have issued six reports addressing the administration of justice. Our work includes the disclosure of problems related to the program for diverting domestic violence diversion cases, the equipment available for peace officers, and the building of a prison. Also, since 1980, we have operated a toll-free hotline for reporting fraud and abuse in state government. Some of our investigations have led to the arrest and punishment of state employees for illegal or improper behavior. Four of our reports on the administration of justice are highlighted below.

### **Poor Management of the Domestic Violence Diversion Program**

#### *Inadequate monitoring of program participants*

The program was established to prevent further domestic violence by persons charged with misdemeanor acts of domestic violence by requiring these individuals to attend batterers' treatment programs. However, during our review (Report P-852), we noted several problems including inadequate monitoring of defendants who were granted the chance to participate in the program. For example, of the cases we reviewed in five counties, we found that, for 165 (54 percent) of the 304 cases active for longer than four months, there was no evidence of contact between the probation department and the divertee for at least four months. When probation departments do not monitor divertees regularly, they may be unaware of instances when divertees do not comply with the terms of their diversion.

To improve the management of the program, we indicated, among other recommendations, that county probation departments needed to develop and implement clear and comprehensive policies for managing domestic violence diversion cases. In addition, we recommended that the Legislature should require counties to standardize the requirements for the duration and content of treatment programs.

***Probation departments implemented new procedures***

In response to our recommendations, the county probation departments in Los Angeles, Sacramento, San Francisco, and San Diego have implemented new procedures for managing their respective domestic violence diversion caseloads and for referring divertees to appropriate treatment programs.

***The Legislature introduced two bills incorporating some of our recommendations***

In addition to these improvements resulting from our review, the Legislature has introduced two bills incorporating some of the recommendations in our report. Assembly Bill 2584 (Bronzan) proposes that divertees receive weekly counseling for a minimum of three months. The bill would additionally require the treatment provider to notify the court and probation department when the provider determines the divertee is performing unsatisfactorily or is not benefiting from the program. Assembly Bill 237 (Roybal-Allard and Allen) includes additional criteria to assist the court and probation departments in determining whether a defendant is eligible for domestic violence diversion. The bill establishes minimum requirements for domestic violence diversion treatment programs.

**Excess Revenue for the Child Support Enforcement Program Improperly Calculated and Restricted**

The Department of Social Services is responsible for the overall supervision of the Child Support Enforcement Program. District attorneys in each county administer the program locally, enforcing court orders for child support payments and collecting those payments. To encourage counties to maximize their collections of child support payments, the state and federal governments provide incentive payments to the counties. For example, in fiscal year 1988-89, the State provided incentive payments totaling \$16,008,545, and the federal government provided incentive payments totaling \$28,007,850.

***Excess revenue not restricted to financing only future child support enforcement activities***

During our review (Report P-820) of how four counties accounted for the incentive payments they received that exceeded their cost of administering the program, commonly referred to as “excess revenue,” we found that counties were not properly calculating or restricting their excess revenue. For example, three counties were not restricting the use of their excess revenue to financing only future child support enforcement activities, as required by law.

*The department plans to implement several measures including reviews to ensure the restricted use of excess revenue*

In response to our recommendations to ensure that the counties properly calculate and restrict their excess revenue, the department intends to implement several measures. For example, the department expects to have a methodology for counties to use when calculating their excess revenue by September 11, 1990. The department also intends to instruct the counties to place their excess revenue in reserve accounts. Furthermore, to ensure that counties are properly calculating their excess revenue and are restricting its use, the department plans to require county single audits to be expanded to include a review of the excess revenue.

### **Improvements Needed in Managing the Design and Construction of New Prisons**

Arthur Young, an independent auditing firm on contract with the Office of the Auditor General, performed an audit (Report P-847.1) of the California Department of Corrections' program management contractor, Kitchell CEM. The department contracted with Kitchell for management services related to the design and construction of new prisons. The department has paid approximately \$30 million over the last six years for such services.

*Certain aspects of the contract and methods of operating the new prison program could be improved*

Arthur Young found that Kitchell fully met the performance objectives of the contract between Kitchell and the department although certain aspects of the contract and methods of operating the department's new prison program could be improved. For example, Kitchell was being paid for overtime hours worked by exempt employees, but these overtime costs were not being incurred by Kitchell. These payments were in accordance with the contract terms as negotiated by the department. However, such payments are not common practice in other government work for contracts that allow costs to be reimbursed.

Moreover, the contract with the department specified that if Kitchell did not pay employee benefits greater than or equal to a defined percentage of direct salary for the 1986, 1987, and 1988 contract years, the department would retroactively adjust the rates of payment for labor billed by Kitchell. This defined percentage of direct salary was based on an estimate of what Kitchell's employee benefit expenses would be for a year. The retroactive adjustment process allows the department to adjust the billing rates in the contract to reflect Kitchell's actual employee benefit expenses. Arthur Young found

***Contract terms will be strengthened and responsibilities have been refined as a result of the audit***

***Changes made to improve the competitive bidding process***

***Corrective action taken***

that Kitchell did not incur the minimum level of employee benefit expenses for any of the three years and, therefore, the billing rates used by Kitchell should have been reduced retroactively. Arthur Young estimated that the amount to be recovered would be \$303,510.

As a result of this audit, the department reports it will strengthen the terms of its contract with Kitchell and has refined some of Kitchell's responsibilities. For example, the department reports that payments to Kitchell will be based on actual costs that Kitchell incurs when its employees work overtime. Also, the contract will more specifically define the type of employee benefit costs for which Kitchell can be reimbursed. In addition, the department reports that it will recover from Kitchell the amounts due that the audit identified.

Moreover, after the audit report was issued, the department prepared a Request for Qualifications (RFQ) to select a firm to provide program management services when the previous contract with Kitchell expired. In response to a request from the Assembly Committee on Ways and Means, we reviewed the department's RFQ and suggested a number of changes to improve the ability of other firms to compete with Kitchell for the contract and to correct deficiencies in the RFQ that had carried over from the previous contract. The department incorporated almost all of our suggested changes.

### **Auditor General Hotline Provides a Unique Service to the State**

Since January 1989, several thousand people have called the Office of the Auditor General's Hotline to report allegations of improper governmental activity and to complain about government programs and services. We assisted many of the callers by referring them to other agencies in federal, state, and local government that can better address their concerns. We also conducted initial investigations to verify approximately 140 of the allegations received, and we have completed 55 investigative audits since January 1989, substantiating 34 (62 percent) of them.

As a result of our investigations, 30 state agencies have taken corrective action on the problems we identified. Corrective action includes the punishment of more than 20 employees, ranging from arrests and terminations to reprimands and salary reductions. In total, since January 1989, state employees have paid back to the State \$12,000, and

## Audit Highlights

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another \$120,000 is being pursued in court. Moreover, systems to help prevent improper governmental activities from recurring have been strengthened. Our investigations also serve as a deterrent to those state employees who would take advantage of the trust placed in them by their employers, and who, as a result would cast discredit on the many thousands of state employees who conscientiously serve the public.

## Government Operations

Very much like large private sector businesses in California, the State's agencies and departments must perform many of the daily activities of managing a large work force with varied responsibilities. These functions include personnel administration, real estate management, data automation, contracting for services, and oversight of its revenue generating activities. Improving the efficiency and economy of these administrative operations results in immediate benefits to the State's taxpayers. Since January 1989, we have issued 14 audit reports on the administration and operation of ten state agencies, and we have made recommendations to these agencies for improved efficiency and compliance with laws and regulations. These audits have addressed issues including personnel, automation, contracting, real estate, and tax oversight. Five of our reports on government operations are highlighted below.

### **The Department of General Services Needs To Improve Its Management of State Leases and Real Estate**

The Department of General Services, through its Office of Real Estate and Design Services, provides a full range of leasing and real estate services to state agencies. According to the office, it currently manages more than 2,000 leases for which the State pays more than \$14 million in monthly rent. In addition, the office is responsible for appraising properties that the State is acquiring or properties that it intends to sell. The office also reviews and disposes of or transfers state properties no longer needed. The governor's budget for fiscal year 1990-91 states that, during fiscal year 1988-89, the office processed 142 real estate acquisitions and sales for state agencies and used \$9.8 million for its support.

*Ineffective response to emergencies, slow procurement of state leases and real estate, and inadequate enforcement of asbestos notification requirements*

During our review (Report P-839.1), we found several weaknesses. For example, the department did not respond effectively to emergencies in state-leased facilities, did not promptly procure state leases and real estate, and inadequately enforced asbestos notification requirements. For instance, for two emergencies that occurred in state-leased facilities, the department's response was sometimes characterized by an inadequate assessment of conditions, a lack of overall coordination, ineffective site interaction, and inappropriate

***Failure to identify \$66 million in excess state land and to collect approximately \$1.3 million in delinquent lease payments***

funding. The department responded ineffectively because it has not adopted and implemented a plan for responding to emergencies in state-leased facilities.

In addition to these deficiencies, since 1974, the department has not periodically and independently reviewed state properties to determine whether landholding agencies have identified all excess lands, as required by the State Administrative Manual. Nearly \$66 million in excess land we found has not been declared surplus by the department, thus, blocking the opportunity to sell it. Finally, the department has not collected approximately \$1.3 million in delinquent lease payments from state agencies, other governmental agencies, and private lessees.

***Operational improvements in response to our audit***

The department determined that most of our recommendations to address these weaknesses have merit. Consequently, the department has made several improvements to its operations. For example, it is preparing a guidebook, which will assist all state agencies in preparing business recovery plans that will govern their resumption of normal operations after an emergency. The department has also established an emergency response team and has selected a business recovery coordinator, who will evaluate each emergency to determine the need for on-site supervision. Finally, the department hired an asbestos coordinator to ensure that certain department personnel understand the requirements for asbestos notification and that client agencies are notified within 15 days of the department discovering that a building contains asbestos. The department has also clarified its policies regarding the leasing of space in buildings containing asbestos.

To identify all excess lands, the department stated that it has created an asset management unit, which is responsible for reviewing landholdings of other state agencies to determine which properties are underused or unused. When potential surplus property is identified by this unit, it will be referred to the department's surplus sales unit for further action. Finally, the department stated that it has developed a list of outstanding accounts receivable for lease payments and is in the process of collecting these delinquent lease payments amounting to an estimated \$1.3 million.

## **Weaknesses in Personnel Administration at the California Military Department**

The California Military Department, which includes the California National Guard, uses both full-time and part-time personnel to accomplish state and federal missions. The department receives funding support and staffing from both the state and federal governments and directs approximately 3,900 permanent full-time federal employees and 648 permanent full-time state employees stationed around the State; 210 of the latter are classified as State Active Duty military employees. The department also directs the approximately 28,000 authorized officers and enlisted personnel who make up the California National Guard.

In fiscal year 1989-90, the department's state budget was approximately \$50 million, including \$22.3 million from the State's General Fund and \$25.3 million from Federal Trust Fund appropriations. In addition, the department estimates that, in fiscal year 1989-90, the federal government will make direct payments of approximately \$304 million in support of the California National Guard.

***Positions could be converted to civil service positions, weak controls over leave reporting, and other personnel management problems***

During our review (Report P-822.1) of personnel issues at the California Military Department, we found that at least 30 State Active Duty positions could be converted to civil service positions, thus, saving the State approximately \$57,000 annually. Also, the department reclassified positions without appropriate approval, and it did not always announce job vacancies. Moreover, the department had weak controls over leave reporting. For example, 14 of a sample of 22 employees on State Active Duty who participated in federal active duty between July 1, 1984, and June 30, 1989, did not take appropriate leave from their regular state duties, as required.

***New administrative instructions and policies***

In response to our recommendations, the department has taken various actions. It has written and plans to implement administrative instructions and policies for determining whether its positions should be State Active Duty positions or state civil service positions, for converting State Active Duty positions when appropriate, for ensuring that all vacancies for these positions are announced, and for requiring supervisors who request approval for exceptions to the department's vacancy announcement policy to provide written justification to senior management officials.

*New internal control measures and the collection of amounts owed to the State*

The department has also adopted internal control measures to ensure that requests to reclassify State Active Duty positions receive the required approval. In addition, through a memorandum, the department advised all State Active Duty employees to take appropriate leave when they were on federal active duty. Finally, for the period July 1, 1984, to June 30, 1989, the department conducted a review of the leave usage of all State Active Employees on federal active duty. Individuals with leave discrepancies have been individually notified, and most collections for inappropriate leave usage will be completed in 1990.

**Poor Management of the Procurement Process for the California Network System**

In 1964, the Automatic Telecommunications Switching System (ATSS) was built to serve the voice telecommunications needs of California. The ATSS is still serving the State today although the California Network System, known as CALNET, is expected to eventually replace ATSS. On November 28, 1989, the Department of General Services awarded a contract to GTEL to establish CALNET. However, because of numerous changes made to the CALNET Request for Proposal and the specificity of certain requirements of the proposal, we were directed to conduct an audit of the department's procurement of CALNET. We retained Deloitte Haskins & Sells, now Deloitte and Touche, to conduct this audit (P-949.1).

*Failure to follow normal state policies and business practices and the use of unsound management decisions in the procurement of CALNET*

Deloitte and Touche concluded that the procurement of CALNET, involving approximately \$100 million in state funds, did not follow normal state policies and generally accepted business practices. In fact, the department did not consistently make sound management decisions related to the design and procurement of CALNET, and many strategic decisions were based upon nonexistent or missing analyses. Because normal state oversight and acquisition practices were not followed, it cannot be proven that CALNET, and the associated strategy used to acquire it, is cost-effective and serves the needs of state agencies.

While the CALNET concept may be something the State needs to pursue, Deloitte and Touche recommended that the State should ensure that it is cost-effective and linked to agency needs before proceeding with such a significant commitment. Further, state laws and regulations need to be modified to institute better oversight and

*Several changes implemented to improve the planning process of CALNET*

control, and the State should, in fact, determine the extent to which it wants to assume responsibilities similar to those of a telephone company.

In response to the recommendations, the department has modified its Telecommunications Management Annual Plan to facilitate the gathering of data to ensure that user requirements are current, documented, and traceable. In addition, the department has amended its communications procurement process to ensure that Request for Proposal requirements are competitive and supported by sound business principles. Further, the department is currently preparing a required feasibility study for the CALNET project and will submit this report to the Department of Finance for review.

**Some Problems With the Employment Development Department's Acquisition of New Automated Systems**

The Employment Development Department is responsible for assisting California's employers in meeting their labor needs, job seekers in attaining gainful employment, disadvantaged persons in becoming self-sufficient, and unemployed and disabled workers by maintaining benefit payment programs. The department is also responsible for supporting state activities and benefit programs by collecting payroll taxes and assisting employment, training, and vocational education program planners. The governor's budget for fiscal year 1989-90 reports that, in fiscal year 1987-88, the department paid approximately \$1.8 billion in unemployment insurance benefits and almost \$1.4 billion in disability insurance benefits.

*Cost increases, schedule delays, and incorrect implementation plague automation efforts*

During our review of the department's acquisition of new automated systems (Report P-752), we found that, among other weaknesses, the department experienced cost increases and schedule delays in the development of its six new automated systems; some parts of the Tax Accounting System, known as TAS, did not operate correctly when implemented; and although the department had improved the way it develops its automated systems, more improvements were needed. For example, the department still does not have sufficiently experienced staff to develop and manage large, complex automated systems. Moreover, because TAS did not operate correctly, the department had a backlog in its daily work load, and the collection of approximately \$27.4 million in tax revenues was delayed. We estimate that the department spent between \$3.4 and \$4.9 million to correct problems

with the TAS and eliminate the backlog. The department also did not earn at least \$1.0 million in interest because of delayed collections. Further, the department did not always issue first payments promptly to all claimants for disability insurance benefits.

***Plans to improve the development of automated systems***

The department reported that it has implemented or has plans to implement all of our recommendations addressing these weaknesses. For example, to improve the development of its automated systems, it will replace its outdated system development methodology with the procurement of a new methodology and will train all division staff to use it. In addition, the department is acquiring automated tools to better estimate costs and to better plan and track the development of its automated systems. Further, to ensure that it thoroughly tests its new systems and that data files from old systems are accurately converted to the new systems, the department reports that it has created special groups within its organization that are responsible for overseeing the testing and conversion of new systems. These groups are also developing written guidelines that establish procedures, responsibilities, and standards.

***Actions taken to improve the promptness of payments***

To improve the promptness of disability insurance benefit payments, the department reports that it has improved its ability to identify payments that are unnecessarily delayed in the process. For instance, one of its new automated systems produces a monthly list of all first claims that have not been paid within the 14-day statutory limit, and the department has begun a systematic review of these claims. To reduce the number of telephone calls to its disability insurance field offices and the detrimental impact that these calls have on the prompt payment of claims, the department has produced a new informational pamphlet and revised its application forms to clarify for applicants the type of information it is requesting. In addition, the department has budgeted to add 42 staff to respond to telephone calls.

**The State Board of Equalization's Program for Appraising Cellular Telephone Companies Needs Improvement**

The State Board of Equalization appraises the taxable property of public utilities in California, including cellular telephone companies, to determine its fair market value. The number of cellular telephone subscribers in the State has increased from 15,000 in 1984 to an estimated 308,000 in 1989 while operating revenues for cellular

telephone companies have increased from \$11.3 million in 1984 to \$483.3 million in 1988. Because of this growth, the acquisition prices for cellular telephone companies have also increased significantly.

***Possible underassessments of cellular telephone companies***

Our report (P-936) shows that the board uses appraisal methods that are in accordance with the law and are similar to those used by the board and by county assessors to appraise comparable industries. However, the board has not performed certain appraisal procedures in accordance with prescribed standards, resulting in possible underassessments of cellular telephone companies. Moreover, the board did not review all the appraisals of public utilities to verify the appraisals for mathematical accuracy, as required by the board's written procedures for conducting such quality control reviews.

Although it appears most of the unreviewed appraisals did not cause significant errors, the appraisal of one cellular telephone company resulted in an underappraisal of approximately \$8.3 million, which, in turn, created an \$88,000 revenue loss for several counties.

***Plans to make more accurate appraisals***

In response to our recommendations for the board to improve its appraisal practices in valuing cellular telephone companies' taxable property, the board has agreed to take numerous actions to correct these deficiencies. For example, the board will require its staff to do more in-depth studies and analyses of cellular telephone industry income projections and sales of cellular companies, and these studies and analyses will be used to make more accurate and reliable appraisals. The board is also attempting to obtain additional staff and to fill key senior appraiser positions to do the necessary studies and analyses.

***Plans to improve quality control processes***

In addition, in response to our recommendation for the board to improve the quality control processes for reviewing appraisals of public utilities, including cellular telephone companies, the board will more thoroughly review all appraisal reports to ensure the accuracy of appraisals. The board is attempting to obtain additional staff and fill key senior appraiser positions to assist in this quality control review.

## Financial Administration

Since the State is spending the public's tax dollars, the State's agencies have a responsibility to these taxpayers to ensure that the funds are accounted for and spent properly. Public confidence and trust is lost when breakdowns in the system of accountability and control occur. Overall, the State manages its financial and accounting operations quite well. However, each year, we find areas where internal controls are weak, accounting transactions are in error, or cash is not managed efficiently.

Annually, we issue an audit report on the overall financial condition of the State. This audit is performed to satisfy a variety of needs. First, the Legislature, governor, and citizens need to be satisfied that the State's financial statements are accurate and deficiencies are identified and corrected. Second, as a condition of the receipt of approximately \$15 billion in federal grant funds, the federal government mandates an annual single audit of California. Lastly, to sell bonds, the State needs to include a financial audit report in the official statements of prospective bond sales. These official statements are then relied upon by underwriters, bondrating companies, and potential investors. In addition to 2 annual single audits, the office has also issued 11 other financial and compliance audits since January 1989. These audits covered compliance with specific grant requirements, counts of cash and securities in the state treasury, and fiscal controls at the state fair. Two of the financial audits are highlighted below.

### **Although the State Has Corrected Some of the Internal Control Weaknesses That We Reported in Recent Years, It Has Many More Weaknesses To Correct**

In our single audit report for fiscal year 1987-88 (Report F-800) and in our single audit report for fiscal year 1988-89 (Report F-905), we reviewed the State's controls over its financial activities and its compliance with federal grant requirements and state regulations.

***Recommendations to improve the State's financial management and fiscal operations***

In Report F-800, we addressed 10 statewide concerns to the state Department of Finance so that it could improve the financial management of the State and 228 recommendations to 39 state agencies so that they could improve their fiscal operations. In Report F-905, we addressed 14 statewide concerns to the department and 177 recommendations to 35 state agencies.

Some of the 228 recommendations in Report F-800 and some of the 177 recommendations in Report F-905 were written to reduce the risk of fraud and abuse, improve the operating efficiency of state agencies, improve the delivery of state services, and ensure compliance with state and federal regulations. Some of the other recommendations from Report F-800 were written to correct poor fiscal practices that cost the State \$1,457,712 in lost interest and discounts, \$182,563 in unnecessary expenditures, and \$314,250 in lost revenue and to help collect \$9,118,792 that has been owed to the State for extended periods of time. Some of the other recommendations from Report F-905 were also written to correct poor fiscal practices that cost the State \$684,340 in lost interest and discounts, \$57,862 in unnecessary expenditures, and \$3,650,000 in lost revenue and to help collect \$289,234 that has been owed to the State for extended periods of time.

***Expected improvements in accountability for fixed assets and expected reductions in delays in producing audited financial statements***

The department is making progress in implementing some of the statewide concerns in Report F-800 and Report F-905. For example, to improve accountability for fixed assets, the department reports that a statewide inventory of major fixed assets is expected to be completed by June 1990. In addition, to reduce delays in producing audited financial statements, the department established a pilot project for a system that will eventually allow state agencies to electronically transmit financial reporting information to the State Controller's Office. However, many of the recommendations to the department require additional time to implement because they require changes to laws, regulations, and complicated and extensive information systems.

The state agencies indicated that they are implementing 168 of the 228 recommendations from Report F-800 and 114 of the 177 recommendations from Report F-905 and that the majority of the remaining 60 recommendations from Report F-800 and the majority of the remaining 63 recommendations from Report F-905 require further study or require additional time to implement.

## APPENDIX A

Annual Report

### **GILBERT ACCOUNTANCY CORPORATION**

*Certified Public Accountants*

Thomas M. Gilbert, MBA, CPA  
John E. Chaqueca, MBA, CPA  
Barbara L. Nash, CPA

Daria A. Colson, CPA  
Edward E. Straine, Jr., CPA

Mr. Kurt R. Sjoberg  
Acting Auditor General  
Office of the Auditor General  
Sacramento, California

We have audited the accompanying balance sheet of the Office of the Auditor General as of June 30, 1989 and the related statements of expenditures, transfers and change in fund balance, and of expenditures - budget and actual (legal basis) for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Office of the Auditor General at June 30, 1989, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

*Gilbert Accountancy Corporation*

GILBERT ACCOUNTANCY CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

# National State Auditors Association

July 21, 1988

Mr. Thomas W. Hayes  
Auditor General  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, California 95814

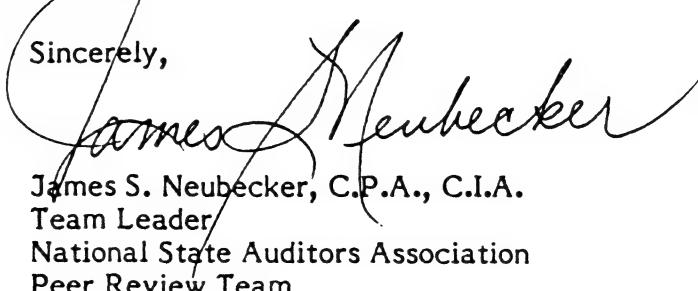
Dear Mr. Hayes:

We have reviewed the system of quality control in effect for the Office of the Auditor General of the State of California (the Office) for audits issued by the Financial Audit Division and the Performance Audit Division (Divisions) during the period July 1, 1987 through June 30, 1988. We have conducted our review in conformity with the standards for quality control reviews established by the National State Auditors Association (NSAA). We tested the Divisions' compliance with established control policies and procedures to the extent we considered necessary in the circumstances. These tests included the application of the Divisions' policies and procedures to selected audit engagements.

In performing our review, we have given consideration to the general characteristics of a system of quality control as described in the quality control guidelines issued by NSAA. Such a system should be appropriately comprehensive and suitably designed in relation to the Office's organizational structure, its policies, and the nature of its functions. Because variance in individual performance can affect the degree of compliance with the Office's prescribed quality control policies and procedures, adherence to all policies and procedures in every case may not be possible. Nevertheless, compliance does require the divisions to adhere to prescribed policies and procedures in most situations.

In our opinion, the system of quality control for the Office in effect for audits issued by the Financial Audit Division and the Performance Audit Division during the period July 1, 1987 through June 30, 1988 met the objectives of the quality control guidelines established by NSAA, and was being complied with during the year under review to provide the Office with reasonable assurance that its work was conforming with professional standards.

Sincerely,



James S. Neubecker, C.P.A., C.I.A.  
Team Leader  
National State Auditors Association  
Peer Review Team

## APPENDIX B

Annual Report

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### Reports Released Between January 1, 1989 and June 30, 1990

#### Education

<u>Report No.</u>	<u>Title</u>	<u>Subject</u>
P-768	The Chancellor's Office of the California Community Colleges Has Developed Procedures That Result in a Circumvention of Many State Fiscal Controls	Community Colleges
P-869	A Review of the State Department of Education's Authorization of Private Postsecondary Educational Institutions	Postsecondary Educational Institutions
P-870.1	The State Department of Education's Implementation of Programs Mandated by Chapter 1431, Statutes of 1985	High School Dropouts
F-931	An Estimate of Oakland Unified School District's Current and Future Financial Condition	Oakland Unified School District
F-931.1	Because of Poor Management Controls, the Oakland Unified School District Is Not Adequately Protecting Its Assets	Oakland Unified School District
F-931.2	A Review of the Oakland Unified School District's Financial Position	Oakland Unified School District
P-935	A Review of the Purchasing Practices and Conflict of Interest Policies in the Selection of School Textbooks	School Textbooks
C-941	The State Department of Education's Juvenile Court and Community Schools	Juvenile Court & Community Schools

**Education (Continued)**

<u>Report No.</u>	<u>Title</u>	<u>Subject</u>
C-948	A Review of the Los Angeles Community College District's Management of Construction Projects	Los Angeles Community College District

## **Health and Safety**

<b>Report No.</b>	<b>Title</b>	<b>Subject</b>
P-780	A Follow-up Review of the Placement of Delinquent Minors in the VisionQuest Program	Delinquent Minors
P-821	The Laboratory Field Services Within the Department of Health Services Is Not Meeting All of Its Responsibilities To Regulate Clinical and Physicians' Laboratories	Laboratories
P-830	A Review of the Workers' Compensation System	Workers' Compensation
P-872	Improvements Are Needed in the State's Program To Provide Assistance to Homeless Families	Homeless Assistance Program
P-874	A Review of the Riverside County Department of Mental Health's Contracts With the Harvest of Wellness Foundation	Harvest of Wellness Foundation
P-876	A Review of the Office of Statewide Health Planning and Development's Procedures for Ensuring That Health Facilities Meet Seismic Safety Standards	Seismic Safety Standards
P-929	A Review of the Los Angeles County Department of Mental Health	Los Angeles County Dept. of Mental Health

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**Environment and Transportation**

<u>Report No.</u>	<u>Title</u>	<u>Subject</u>
P-777.1	A Review of Public Bus Operations in California (Vols. 1 and 2)	Bus Operations
P-777.2	The San Francisco Bay Area Rapid Transit District Complied With Its Procedures and Requirements in Awarding Its Contract for Express Bus Services	Bay Area Rapid Transit Dist.
P-826	The California Public Utilities Commission Can Improve Its Regulation of Limousine Operators	Limousine Operators
P-831	California's Hazardous Waste Management Program Continues To Improve but Needs To More Fully Enforce State Laws and Regulations	Hazardous Waste
P-861.1	Alameda-Contra Costa Transit District: First Quarterly Monitoring Report	Alameda-Contra Costa Transit District
P-861.2	Alameda-Contra Costa Transit District: Second Quarterly Monitoring Report	Alameda-Contra Costa Transit District
P-861.3	Alameda-Contra Costa Transit District: Third Quarterly Monitoring Report	Alameda-Contra Costa Transit District
P-861.4	Alameda-Contra Costa Transit District: Fourth Quarterly Monitoring Report	Alameda-Contra Costa Transit District

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**Environment and Transportation (Continued)**

<u>Report No.</u>	<u>Title</u>	<u>Subject</u>
P-861.5	Alameda-Contra Costa Transit District: Fifth Quarterly Monitoring Report	Alameda- Contra Costa Transit District
P-861.6	Alameda-Contra Costa Transit District: Sixth Quarterly Monitoring Report	Alameda- Contra Costa Transit District
P-971	A Review of the Department of Transportation's Cost Estimate for Regional Measure One Projects	Regional Transportation

**Justice**

<b>Report No.</b>	<b>Title</b>	<b>Subject</b>
P-820	Child Support Enforcement: Counties Are Not Properly Calculating or Restricting Their Excess Revenue	Child Support
P-847.1	An Audit of the California Department of Corrections' Program Management Contractor	Correctional Industry
P-847.2	An Audit of the California Department of Corrections' Construction of the San Diego Prison	Correctional Industry
P-852	The Administration of the State's Domestic Violence Diversion Program Could Be Improved	Diversion Programs
P-918	A Review of the Vehicle Maintenance Programs and the Availability of Two-way Radios at Two State Correctional Institutions	Vehicle Management
I-943	Public Reports of Investigation Completed by the Office of the Auditor General From July 1, 1988 Through July 31, 1989	Auditor General Investigations

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**Government Operations**

<b>Report No.</b>	<b>Title</b>	<b>Subject</b>
P-752	A Review of the Employment Development Department's Acquisition of New Automated Systems and Its Management of Its Programs and Field Offices	Computer Systems
P-822	A Review of the California Air National Guard's 144th Fighter Interceptor Wing	Air National Guard
P-822.1	A Review of Personnel Practices at the Military Department: Some Practices for State Active Duty Employees Need Improvement	Personnel Practices
P-827	A Review of the Operations and Funding of the California Relay Service	California Relay Service
F-833	The Department of Motor Vehicles Can Improve Its Administration of the International Registration Plan	International Registration Plan
P-839.1	The Department of General Services Needs To Improve Its Management of State Leases and Real Estate	Real Estate
P-843	A Review of the Department of Food and Agriculture's Management of Its Milk Marketing Program	Milk Marketing Program
F-859	The Departments We Reviewed Within the Health and Welfare Agency Are Not Complying With the Direct Service Contract Reforms	Contracts
F-916	A Review of the Independent Audits Performed on the San Diego Unified Port District	San Diego Unified Port District

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**Government Operations (Continued)**

<u>Report No.</u>	<u>Title</u>	<u>Subject</u>
P-936	A Comparison of the State Board of Equalization's Appraisals of the Cellular Telephone Industry's Taxable Property With the Appraisals of Similar Industries' Taxable Property	Cellular Telephone Industry
P-938	A Review of the California Authority of Racing Fairs' Procurement of Goods and Services for Simulcasting	Procurement
P-939	The California Museum of Science and Industry Needs To Modify Its Agreement With Its Foundation and Improve Management Controls	Museums
P-949.1	Audit of the California Network System (CALNET) Acquisition	California Network System
P-949.2	The Department of Motor Vehicles Did Not Comply With All the State Procurement Requirements	Vehicle Management

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### Financial Administration

<u>Report No.</u>	<u>Title</u>	<u>Subject</u>
F-800	A Review of the State's Progress in Improving Controls Over Its Financial Operations	Statewide Financial and Compliance Review
F-803	State of California Statements of Securities Accountability of the State Treasurer's Office, June 30, 1988	Securities Accountability
F-804	State of California Comprehensive Financial and Compliance Audit Report, Year Ended June 30, 1988	Statewide Financial and Compliance Review
F-805	State of California, Financial Report Year Ended June 30, 1988	General Purpose Financial Statements
F-828	The California Exposition and State Fair Is Fiscally Independent but Can Still Improve Its Financial Condition and Management Controls	Expositions and Fairs
F-900	State of California, Financial Report, Year Ended June 30, 1989	General Purpose Financial Statements
F-903	State of California Statement of Securities Accountability of the State Treasurer's Office, June 30, 1989	Securities Accountability
F-904	A Review of the State's Controls Over Its Financial Operations	Statewide Financial and Compliance Review

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**Financial Administration (Continued)**

<b><u>Report No.</u></b>	<b><u>Title</u></b>	<b><u>Subject</u></b>
F-905	State of California Comprehensive Financial and Compliance Audit Report, Year Ended June 30, 1989	Statewide Financial and Compliance Review
F-922	California Exposition and State Fair's Financial Status for the Fiscal Year Ending June 30, 1989	Expositions and Fairs
F-944	A Review of the State's Administration of the State Legalization Impact Assistance Grants	State Legalization Impact Assistance Grants
C-959	A Financial Review of the City of Imperial Beach	City of Imperial Beach
F-958	The Department of Rehabilitation Has Weaknesses in the Control and Management of Equipment Used for the Business Enterprise Program	Business Enterprise Program

cc: **Members of the Legislature**  
**Office of the Governor**  
**Office of the Lieutenant Governor**  
**State Controller**  
**Legislative Analyst**  
**Assembly Office of Research**  
**Senate Office of Research**  
**Assembly Majority/Minority Consultants**  
**Senate Majority/Minority Consultants**  
**Capitol Press Corps**